



REPORT BY THE
DEPARTMENT OF FISH & GAME
AUDITS BRANCH

WA-07-14

INTERNAL ACCOUNTING
&
ADMINISTRATIVE CONTROL AUDIT
ACCOUNTS RECEIVABLE CYCLE

SEPTEMBER 2008



Memorandum

To: H. Carriker
Assistant Deputy Director, Fiscal
Administrative Division

Date: September 10, 2008

From: Brian A. Kwake
Department of Fish and Game

Audit Control Number
WA-07-14

Subject: Audit Report - Accounts Receivable Cycle

As mandated by the Financial Integrity and State Manager's Accountability Act (FISMA) and the State Administrative Manual (SAM) Section 20060, attached is the final audit report of the Department of Fish and Game's (Department) accounts receivable cycle for the period July 1, 2006 through April 30, 2008. The audit was conducted under the authority of the Audit Branch's (AB) charter that established the AB as the unit responsible for conducting audits of the operating systems and programs of the Department. The audit was performed in accordance with the *International Standards for the Professional Practice of Internal Auditing* as required by the California Government Code, Section 1236.

The Department's response to the report agrees with our audit findings and recommendations. The AB incorporated the Department's response as Attachment A to this report.

As part of the AB's follow-up process, within six months of the date of this report, please submit a separate report to the AB on the status of the Department's corrective actions.

We would like to thank the Administrative Services Branch staff for their time and cooperation. Should you have any questions, please contact Ky Nguyen, or myself, at (916) 445-3367.

Attachment

cc: J. McCamman
C. Jones
W. Fong
Audit File

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SUMMARY

The Department of Fish and Game's (Department) Audits Branch (AB) performed an audit of the Department's accounts receivable cycle. The audit was conducted to determine whether internal accounting and administrative controls over the accounts receivable cycle are adequate, that procedures are established for recording and collecting receivables, adequate separation of duties exist over the receivables function, collection procedures assure appropriate action on outstanding accounts, uncollectible accounts receive appropriate review prior to write-off and are accounted for, and account adjustments are reviewed, approved and supported by adequate description or documentation. The audit found the internal control structure over the accounts receivable cycle to be adequate, except for the following areas:

- The Department has over \$4.2 million of accounts receivable over 120 days old; however, collection efforts have improved significantly since the last audit report dated July 19, 2006; and
- Reimbursable costs not always recovered timely.

FOLLOW-UP ON PRIOR AUDIT FINDINGS

On July 19, 2006, the AB issued audit report number WA-05-21 on the Department's accounts receivable cycle. We followed up on all significant findings in this report to determine if the prior three findings had been fully resolved. These findings relate to the following areas:

- Inadequate accounts receivable collection efforts;
- Reimbursable costs not always recovered timely; and
- Billing invoices costs not always prepared accurately.

As discussed under the Findings and Recommendations Section of this report, the Department still needs to improve the timely collection of reimbursable costs and continue with the improvements implemented to its accounts receivable collection efforts. The Accounting Services Branch (ASB) has been working with both the Human Resources Branch (HRB) and the License and Revenue Branch (LRB) in their efforts to either write-off, or collect, on some of the older receivables. Since the last audit, the Department had already collected or written-off \$9,039,902 in receivables that were over 120 days old. This represents a significant reduction from their May 12, 2006 aging schedule (Finding 1).

BACKGROUND

To ensure that State agency internal control systems are in place and operative, the Legislature enacted “The Financial Integrity and State Manager’s Accountability Act (FISMA) of 1983” (Government Code Sections 13400 – 13407). FISMA places the responsibility for establishing and maintaining an agency’s system of internal accounting and administrative controls with the agency head. State agencies are required to review their agencies’ internal control structure every two years. Accordingly, as part of the continuing internal control audit requirement, the Department’s accounts receivable cycle was selected for audit.

Government Code (GC), Section 13403, states that the elements of a satisfactory system of internal accounting and administrative controls include:

- Proper segregation of duties to safeguard State assets;
- Limiting access to State assets to authorized personnel who require those assets in the performance of their assigned duties;
- An adequate system of authorization and record keeping to provide effective accounting control over assets, liabilities, revenues, and expenditures;
- An established system of practices to be followed in performance of duties and functions;
- Hiring qualified personnel commensurate with their responsibilities; and
- An effective system of internal review.

Per GC Section 1236, internal accounting and administrative control audits will be conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* issued by the Institute of Internal Auditors, Inc. Lastly, the Department of Finance (DOF), Office of State Audits and Evaluations (OSAE) recommends the use of their *Audit Guide for the Evaluation of Internal Controls* to meet the internal accounting and administrative control auditing requirement.

SCOPE, METHODOLOGY, AND OBJECTIVES

The AB audited the accounts receivable cycle internal accounting and administrative controls for the period July 1, 2006 through April 30, 2008. Our audit was conducted in accordance with *Governmental Auditing Standards* issued by the Comptroller General of the United States and the *International Standards for the Professional Practice of Internal Auditing* issued by the Institute of Internal Auditors.

Using the DOF-OSAE's *Audit Guide for the Evaluation of Internal Controls*, the following procedures were performed during the audit: interviews of key personnel; the completion of checklists and internal control questionnaires; identifying internal accounting and administrative controls strengths and weaknesses; the review of applicable laws and regulations; the performance of transaction testing; the analysis of supporting documents, forms, and reports; and other audit procedures as required.

The objectives of the audit were to provide the Department's management with reasonable, but not absolute, assurance that:

- Procedures are established for recording and collecting receivables;
- Adequate separation of duties exists over the receivables function;
- Collection procedures assure appropriate action on outstanding accounts;
- Uncollectible accounts receive appropriate review prior to write-off and are subsequently accounted for; and
- Account adjustments are reviewed, approved and supported by adequate description or documentation.

CONCLUSION

In our opinion, the Department has properly supported accounts receivable cycle transactions for the period July 1, 2006 through April 30, 2008. The internal accounting and administrative control structure over the accounts receivable cycle at April 30, 2008, taken as a whole, was sufficient to meet the objectives stated above insofar as those objectives pertain to the prevention or detection of errors or irregularities in amounts that would be material in relation to the processing of transactions within the accounts receivable cycle, except for the weaknesses described in the Findings and Recommendations Section of this audit report.

Brian A. Kwake, Chief
Audits Branch

September 10, 2008

Audit Staff: Ky Nguyen

FINDINGS AND RECOMMENDATIONS

FINDINGS AND RECOMMENDATIONS

FINDING 1 THE DEPARTMENT HAS OVER \$4.2 MILLION OF ACCOUNTS RECEIVABLE OVER 120 DAYS OLD

The Department's accounts receivable (AR) collection policies and procedures have improved since the last audit. On May 12, 2006, AR over 120 days old was at \$13,337,830. As of February 29, 2008, the Department had \$4,297,928 of AR over 120 days old. This is a substantial reduction totaling \$9,039,902 over two years. The AR reduction is represented in both write-offs of uncollectible AR and successful collections.

When AR's are late, the Department sends three collection letters. If payment is not received, further collection efforts are pursued. Although the Department has shown improvement in its AR collection efforts, the Department should be aware of the risk that when uncollectible AR's are not written-off, or collected timely, financial statements overstate assets that are of no value to the Department. As a result, the Department may forfeit revenue due to lost interest that could have been earned had the AR funds been received.

The State Administrative Manual Section (SAM) 8776.6 (collection policy for non-employee accounts receivable) states, each department will develop collection procedures that will assure prompt follow-up on receivables. These procedures include locating the debtor, sending collection letters, pursuing collection, and write-off. If all reasonable collection procedures do not result in payment, departments may request discharge from accountability of uncollectible amounts due from private entities. Departments will file an Application For Discharge From Accountability form, STD. 27, with the State Controller's Office (SCO), Division of Collections. The Accounts Receivable Management Act as provided in Government Code (GC) Sections 16580-16586 summarizes accounts receivable procedures.

RECOMMENDATION

We recommend that ASB continue its improvement efforts to resolve AR over 120 days old. ASB should ensure that reasonable collection efforts are made before accounts are written-off. If collection efforts are unsuccessful, ASB should write-off AR's and ensure timely entry into the Department's accounting system.

Department Response:

ASB agrees with the finding and recommendations. As noted in Summary section of your audit report, ASB has significantly reduced the amount of Accounts Receivables over 120 days since the previous finding in July of 2006. The Accounts Receivables unit follows (SAM) 8776.6 collection policy for non-employee accounts receivables.

ASB has also established procedures the collection desk is using to ensure that all efforts are made to collect the receivables. In addition, ASB is exploring resources outside the department in an effort to further increase the collections. When accounts are determined uncollectible, ASB is working with the State Controller's Office to request discharge from accountability.

AB Comments:

The ASB's response satisfactorily addresses our recommendation.

FINDING 2

REIMBURSABLE COSTS NOT ALWAYS RECOVERED TIMELY

Reimbursable costs are not always recovered timely by the Department. (This finding was reported previously in audit report number WA 05-21 dated July 19, 2006). We selected 10 contracts for review. Most of the contracts reviewed included multiple billing invoices. Two out of a sample of 10 non-federal cost reimbursement contracts examined disclosed that there were invoices billed three months, or longer, from the period when the services were rendered by the Department. It appears the late billings were caused by Department programs not submitting billing information to ASB timely.

Late invoicing of costs incurred results in the Department not recovering reimbursable costs timely, potentially forfeiting interest income, and financial statements may not accurately reflect assets belonging to the Department.

The SAM Section 8776.2 defines a valid accounts receivable as a receivable which is due and payable and for which there is no apparent disagreement over the validity of the claim. SAM Section 8776.3 requires that the Department issue an invoice as soon as possible after the recognition of such claims.

Title 48 Code of Federal Regulations, Part 31, Section 205.33 requires fund transfers (reimbursement requests) to be as close as is administratively feasible to a State's actual cash outlay for direct program costs. The GC, Section 13401 requires agencies to assess and strengthen the systems of internal accounting and administrative control to minimize fraud, errors, abuse, and waste of government funds. The GC, Section 13403 requires that a satisfactory system of internal accounting and administrative control include a system of record keeping that is adequate to provide effective accounting control over assets, liabilities, revenues, and expenditures. The State's *Full Cost Recovery Policy* codified at SAM Section 8752 requires State departments to recover full costs through timely reimbursements.

RECOMMENDATION

ASB should meet with responsible program staff to discuss the necessity that cost data be provided to ASB as soon as practical to allow timely billing of invoices.

Department
Response:

ASB agrees with the finding and recommendation. While the response time from programs has improved, ASB will continue to work with programs to ensure the billing information is received as soon as possible to allow for timely billing of invoices

AB Comments:

The ASB's response satisfactorily addresses our recommendation.

ATTACHMENT A


AUDITEE RESPONSE

State of California

Memorandum

August 20, 2008

To : Brian A. Kwake, Chief
Audits Branch
Department of Fish & Game

From : 
Helen Carriker
Assistant Deputy Director, Fiscal
Department of Fish & Game

Subject : Internal Accounting and Administrative Control Audit Response – Accounts
Receivable Cycle

We appreciate the opportunity to respond to the Audit Report dated June 17, 2008, regarding the Internal Accounting and Administrative Control Audit Accounts Receivable Cycle. As stated in your opinion, the accounting and administrative controls, taken as a whole, were sufficient to meet its objectives.

In general, we agree with your findings and recommendations relative to the accounting functions. The Department will continue to take action to implement them where remaining issues exist.

Finding 1 - THE DEPARTMENT HAS OVER \$4.2 MILLION OF ACCOUNTS RECEIVABLE OVER 120 DAYS OLD

Recommendation

We recommend that the Accounting Services Branch (ASB) continue its improvement efforts to resolve AR over 120 days old. ASB should ensure that reasonable collection efforts are made before accounts are written-off. If collection efforts are unsuccessful, ASB should write-off AR's and ensure timely entry into the Department's accounting system.

Response

ASB agrees with the finding and recommendations. As noted in the Summary section of your audit report, ASB has significantly reduced the amount of Accounts Receivables over 120 days since the previous finding in July of 2006. The Accounts Receivables unit follows (SAM) 8776.6 collection policy for non-employee accounts receivables.

ASB has also established procedures the collection desk is using to ensure that all efforts are made to collect the receivables. In addition, ASB is exploring resources outside the department in an effort to further increase the collections. When accounts are determined uncollectible, ASB is working with the State Controller's Office to request discharge from accountability.

**Finding 2 - REIMBURSABLE COSTS NOT ALWAYS RECOVERED
TIMELY**

Recommendation

ASB should meet with responsible program staff to discuss the necessity that cost data be provided to ASB as soon as practical to allow timely billing of invoices.

Response

ASB agrees with the finding and recommendation. While the response time from programs has improved, ASB will continue to work with programs to ensure the billing information is received as soon as possible to allow for timely billing of invoices.

We thank you for the thorough review of our accounts receivable cycle and for identifying areas for improvement. If you have any questions, or need additional information, please contact Will Fong, Chief of ASB, at (916) 653-4895.